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COMMERCE FOR UNDER SECRETARY PADILLA
STATE PASS TO USTR

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [OVIP](#) [PGOV](#) [PREL](#) [TH](#)
SUBJECT: SCENESETTER FOR UNDER SECRETARY OF COMMERCE PADILLA

Classified By: DCM James F. Entwistle, reasons 1.4 (b) and (d).

11. (U) Summary. Your visit to Thailand gives you the opportunity to affirm our strong economic relationship with Thailand as we celebrate the 175th anniversary of the Treaty of Amity and Commerce. After being led for 15 months by an interim military-appointed government following a coup in September 2006, Thailand returned to democratic rule with national elections in December 2007 and the swearing in of Prime Minister Samak Sundaravej's Cabinet in January 2008. The government's economic team is led by Finance Minister Surapong Suebwonglee and Commerce Minister Mingkwan Sangsuwan. The two have set a course to stimulate the economy by reviving infrastructure "mega-projects" and pushing credit into rural areas. They have also moved to shore up foreign investor confidence. The United States is Thailand's largest export market and third-largest supplier of imports after Japan and China. Two-way trade in 2007 totaled USD 31 billion. U.S. investment, concentrated in the petrochemicals, finance, consumer products and automobile sectors, is estimated at USD 23 billion. End Summary.

CURRENT ECONOMIC CONDITIONS

12. (SBU) Thailand's recent economic growth has been driven almost solely by exports, which now comprise over 70 percent of GDP. Domestic consumption and investment was flat in 2007 due to political uncertainty following the coup. The current subprime-induced slowdown of the U.S. economy (and other advanced economies) is expected to reduce Thai exports of manufactured products in 2008. The Thai government plans to compensate by boosting domestic growth. The government coalition led by the People's Power Party (PPP) of Samak Sundaravej has proposed expanding government spending by funding infrastructure projects and a revamped version of "populist" low-interest credit programs, aimed at assisting the rural poor, that were first instituted by former Prime Minister Thaksin Shinawatra. Finance Minister Surapong increased foreign investor confidence in March by removing capital controls that had been imposed shortly after the coup. The controls were initiated in an unsuccessful effort to stem the appreciation of the Thai baht, which has strengthened sharply, along with other Asian currencies, vis-a-vis the U.S. dollar over the past two years.

13. (U) Both government and private economists expect real GDP growth in 2008 to be between 5.0 and 6.0 percent, compared to 4.8 percent in 2007, on improved domestic consumption and investment. Thailand is a net exporter of food products and is the world's largest exporter of rice. Consequently, Thailand is expected to weather the recent global increases in food prices relatively well compared to other Asian economies. Food and oil price increases have contributed to

a recent uptick in headline inflation, running at 3.0 to 4.0 percent in the first quarter of this year, while core inflation remains a low 1.5 percent.

BILATERAL ECONOMIC ISSUES

¶4. (SBU) Negotiations on a Free Trade Agreement stalled in mid-2006, and the USG officially suspended them after the September 2006 coup. At the time of the suspension, there were a number of significant differences between the two sides' negotiating stances, particularly on financial services, intellectual property rights, and rules of origin. Due to the political environment in both countries, we consider the talks to be on indefinite hiatus but not officially terminated. The Thai government has not approached us to schedule additional rounds, although officials occasionally make public statements affirming that the FTA is a long-term goal, and the question occasionally arises among media pundits.

¶5. (SBU) In November 2006 and January 2007, Thailand's Public Health Minister issued compulsory licenses on three pharmaceutical products, two of which affected U.S.-based companies Merck and Abbott Labs. The Public Health Ministry at the time and sympathetic NGOs claim the move was necessary to open up access to essential medicines for patients previously unable to afford the drugs. We have focused our engagement with the Thais on ensuring their process for considering compulsory licenses is transparent, and that discussions with patent holders are undertaken in good faith. The current government is reviewing the compulsory licenses already issued as well as their future policy on the issue in general.

¶6. (SBU) On April 28, USTR plans to announce that Thailand will remain on the Special 301 Priority Watch List (PWL). USTR placed Thailand on PWL in 2007, largely due to high rates of optical disc piracy and trademark infringement, and a lack of adequate enforcement of IPR laws. Thailand has the second-highest rate of movie piracy in the world, just behind China and tied with Russia. The total value of losses from piracy and counterfeiting in Thailand, including clothing, software and entertainment products, was estimated at USD 400 million in 2007. The compulsory licensing policy was a contributing but not deciding factor in the decision to place Thailand on PWL last year, but many Thais remain convinced that the decision was driven by the pharmaceutical issue. Thailand has been more active on enforcement in the past year, but piracy remains a major problem.

¶7. (SBU) On February 29, the WTO ruled in Thailand's favor in their case against the Department of Commerce's "zeroing" methodology in calculating anti-dumping duties on Thai shrimp exports. The duties have been in place since 2005 and have been an occasional irritant in bilateral economic relations. Shrimp is one of Thailand's major exports and the U.S. is Thailand's largest market, consuming nearly half its exports. The WTO panel also agreed with Thailand that the U.S. Customs and Border Patrol's "continuous bond" requirement was also WTO inconsistent. The U.S. has until April 29 to appeal the decision.

¶8. (SBU) Thailand is a leading user of U.S. trade preferences under the Generalized System of Preferences (GSP) program. Nearly 20 percent of its exports enter the U.S. duty-free through the program. In 2007, Thailand lost GSP benefits for gold jewelry, flat panel televisions and plastics after surpassing statutory limits on the value of its exports, affecting over a billion dollars in exports. Some belief still remains in Thailand that the loss of GSP benefits was connected to the Special 301 downgrade and Thailand's policy of compulsory licenses on pharmaceuticals. Thailand will likely submit a request for renewal of GSP treatment on six of the nine products that have lost GSP coverage over recent years.

THAILAND'S ECONOMIC TIES WITH BURMA

¶9. (SBU) About two-thirds of Thailand's electricity is generated by natural gas and 26 percent of Thailand's natural gas is imported from Burma. More than half the gas imported from Burma comes from the Yadana field where Chevron has partial ownership of a production sharing contract. Thailand is seeking to diversify its energy supply by building an LNG terminal to import gas from Qatar by 2011 and has longer-term plans for nuclear energy by 2021. But for now, Thailand remains dependent on Burma for a large share of its energy needs, a fact which inevitably frames Thai policy toward its troubled neighbor. In addition to natural gas, a large share of rough Burmese gemstones is sent to Thailand for cutting and polishing. The Thai gem industry is concerned that a proposed U.S. ban on importing Burmese gemstones would harm Thai craftsmen as most of the value of these rubies is added in Thailand.

THE POLITICAL SITUATION

¶10. (C) PM Samak and his People's Power Party (PPP) received a substantial plurality in Thailand's December 23 national legislative election. Samak and PPP campaigned in the election as allies and followers of former Prime Minister Thaksin and his now-disbanded Thai Rak Thai (TRT) party. The substantial plurality that PPP won reflected not only the effectiveness of the new party's machinery (largely inherited from TRT) but also Thaksin's continuing appeal in much of Thailand, as well as widespread dissatisfaction with the interim government installed by the coup leaders.

¶11. (C) Samak and his cabinet took their oath of office before King Bhumibol on February 6 and the inauguration marked both the return to power of a democratically elected government and a return to influence for Thaksin. Although Samak eagerly presented himself as Thaksin's follower during the campaign, he has taken a more independent line since the election. Local media have reported that Samak and Thaksin clashed over cabinet appointments but it remains unclear whether those stories were accurate or were planted to enhance Samak's credibility.

¶12. (C) Pre-election speculation about whether the Royal Thai Army would tolerate a PPP administration has faded. Samak appointed himself Defense Minister -- a civilian Defense Minister is rare but not unprecedented in Thailand -- and signs from the military point to the institution's willingness to work cooperatively with Samak. In a significant departure from 2006, there seems now to be a widespread recognition that military-installed governments have no special capability to resolve Thailand's problems. Under current conditions, most of the political class, the business elite, and many average Thais who welcomed the coup in 2006 would likely not support another instance of military intervention in politics.

¶13. (C) Thailand's southern provinces continue to be wracked by episodic violence due to an ongoing ethnic Malay-Muslim insurgency and Thai government efforts to suppress it. Regional violence has claimed some 2900 lives since January 2004, when the violence began to escalate. In late 2006, the interim military-appointed government made some attempts at ending the violence through reconciliation, but lack of political support and preoccupation with the on-going political crisis in Bangkok caused these efforts to stall. There has been little progress since the inauguration of Samak's government in 2008.

JOHN